



White paper

v0.020.04 at 14 October 9-September 2022

Immutable content (the vibe)

Creation Quote: "In programming, 'rm' is a command for 'remove'. If 'rm' is removed from law firm, then law fi results." ~ Joni Pirovich & Jeanne Bardin

Creator Spirit: "That each person acts with integrity, reciprocity, kindness and respect for others while doing things differently and with an appreciation that time is our most precious resource." ~ Joni Pirovich

Creation Story: "DAOs are supposed to be global and borderless beings, built using blockchain technology. As each country attempts to legally define them and regulate them, I fear that the patchwork of laws and taxes could make them a more difficult structure to use than known multinational corporate group structures. There is reluctance and fear in the market to use DAOs or be involved with them because of the legal and tax uncertainty of launching and operating a DAO. Why should the market be limited in choice to recognised legal and tax structures where the law has not kept pace with the speed of innovation?"

International consensus on minimum standards for legal recognition, rather than regulation, of a DAO and a DAO's tokens could be years away. So in the time before any international minimum standards are agreed, LawFi DAO was created to bring a global group of people together, and to recognise the importance of that connectedness to each other and our countries as we see patchwork laws emerge around the world and attempt to support the innovation that only DAOs can bring about." ~ Joni Pirovich

Purpose: The purposes of LawFi DAO are [set out in the LawFi DAO Rules, effective 1 July 2022 and as modified by special resolution at a general meeting of members of LawFi DAO on 14 October 2022. The purposes of the DAO are to design, develop, implement and maintain the Pay to Rely Protocol and a decentralised model of governance:](#)

- (a) to educate the public, policymakers, regulators and the judiciary about:
 - i. decentralised autonomous organisations (DAOs), or such other name or names as DAOs come to be known by from time to time; and
 - ii. policy issues and opportunities presented by the nuances of blockchain technology, including consensus mechanisms, and smart contracts;
- (b) to promote behaviours that contribute to:
 - i. improved mental health and wellbeing of people involved with DAOs, particularly those from the legal profession; and
 - ii. awareness of the importance of diversity, inclusion and equality in a DAO community; and
 - iii. awareness of the environmental impacts from involvement with DAOs and behaviours that can reduce or offset those impacts;
- (c) to experiment, observe and reflect on how the legal industry can:
 - i. better support understanding and compliance with laws by those involved with DAOs and blockchain technology;
 - ii. input into the development of minimum standards of best practice for those involved with DAOs and blockchain technology; and



iii. be dynamically involved in the improvement and/or simplification of laws applicable to DAOs and blockchain-based projects.

Pay to Rely Protocol means one or more contracts deployed on the Ethereum blockchain, or similar, to facilitate the provision of Pay to Rely Products by various providers, particularly those in the legal profession, as set out and updated from time to time in this white paper.

iii- Pay to Rely Products means information or services provided using the Pay to Rely Protocol by persons that may or may not require qualifications and registrations before being able to provide such information or services to third parties.

Formatted: Body Section (Sub), Indent: Left: 4.12 cm, Numbered + Level: 2 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Right + Aligned at: 3.67 cm + Indent at: 4.31 cm

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Font: 10 pt

Formatted: Font: 10 pt, Not Bold, Not Italic

Formatted: Normal, Indent: Left: 2.5 cm, No bullets or numbering

Formatted: Font: (Default) +Body (Calibri), 11 pt



Mutable content (the innovation)

1. INSTRUCTIONS

Before ~~v1.0 of each version~~ of this white paper is approved, discussions about each of the sections will be facilitated ~~by the committee or a representative by Joni Pirovich~~ through DAO Day sessions with feedback and issues logged ~~at section 7 of this white paper, and reflected in s~~Subsequent versions ~~will be~~ labelled as v0.02, v0.03 ~~or v1.01, v2.01~~ etc where each version will state the persons that provided the relevant feedback if they consent for their names to be included. A feedback and issues log will also be kept to track the item received and how considered or addressed.

Once v1.0 of this white paper is ~~released~~approved, for each section that is updated by vote of the DAO members, the link to the relevant proposal and vote outcome should be included in the relevant section/s. In addition, the DAO status should be reported after each vote according to:

- (a) level of global decentralisation as a measure of how many countries are represented in the membership base that did cast a vote;
- (b) level of representative democracy achieved in terms of how many sectors were represented in the vote;
- (c) estimate percentage of autonomous versus manual operations based on:
 - i. a description of operations made autonomous through open-source software; and
 - ii. a description of operations that remain manual; and
- (d) estimate percentage of autonomous versus manual governance processes based on:
 - i. a description of governance processes made autonomous; and
 - ii. a description of governance processes that remain manual.

2. ESTABLISHMENT

In plain language, LawFi DAO is taking one for the team.

LawFi DAO will attempt to launch DAO-first (explained below) but with trade-offs to 'native' or 'wild' DAOs to ~~attempt to be~~remain legally compliant. ~~The unincorporated not-for-profit association structure is considered the closest to a 'native' or 'wild' DAO because it does not require registration with any regulatory body whereas cooperatives, limited partnerships and trusts do require such registration.~~ A 'native' or 'wild' DAO is one that those involved intend or believe that there is no incorporated, registered or deemed legal or tax structure to describe them.

~~Attempting to be legally compliant and keeping the world informed along the way is intended to educate the public about the legal and tax considerations of establishing and operating a DAO, to reveal the policy gaps in existing law and international legal frameworks, and to form a well-informed basis about how the law could change.~~

The LawFi DAO journey is intended to reveal to regulators, policymakers, the judiciary, and lawyers that it is ~~currently (close to)~~ impossible for a person or team to identify themselves, raise capital, distribute tokens, develop ~~open-source~~ software (i.e. a protocol) and launch a 'native' or 'wild' global DAO ~~with a decentralised model of governance~~ that is legally compliant in one jurisdiction let alone every jurisdiction. Persons involved with DAOs are shouldering an enormous amount of legal and tax risk, which is increasingly stifling good use of the structure for innovation. ~~Attempting to be legally compliant and keeping the world informed along the way of designing, developing, implementing and maintaining of the Pay to Rely Protocol and decentralised model of governance is intended to educate the public about the legal and tax considerations of establishing~~



and operating a DAO, to reveal the policy gaps in existing law and international legal frameworks, and to provide a well-informed basis about how the law could change.

The LawFi DAO Rules effective 1 July 2022 were prepared based on the model rules for an incorporated association, prior to the v0.01 white paper release and prior to any LawFi DAO tokens being distributed. This was an attempt to characterise LawFi DAO as an unincorporated association of persons that is a 'registrable body' under the *Associations Incorporations Act 1981* (Vic) (**Victorian law**) and a deemed company for Australian income tax law purposes (a 'tax law company') where some or all activities are covered under the mutuality principle. It is also an attempt at being DAO-first, both striving for community consensus around a plan and reducing regulatory risk that usually centres one a white paper author and founding team while being conscious of the regulatory risks to all participants in a DAO. This involves the white paper (i.e. the **actual** plan for the DAO, but not a typical business plan!) being discussed over several weeks and approved by Special Resolution of the LawFi DAO members.

Formatted: Font: Bold

The intention is to apply for registration as an incorporated association with the regulatory body, Consumer Affairs Victoria, once the proposed v1.0 of the white paper is approved by special resolution of the members. There is a chance that the members do not approve the white paper and a sentiment may be expressed to wind down the unincorporated association in favour of a different structure.

-because Until the white paper is approvedn the purposes of LawFi DAO are stated in the context of express not-for-profit provisions in the LawFi DAO Rules, but the plan of action for LawFi DAO is not articulate enough to determine whether it has an object gain for itself and for its members that falls foul of Federal and State-based law (set out below). Application for registration as an incorporated association is a purposeful exercise to interrogate whether the proposed LawFi DAO Protocol and tokenomics model falls foul of the 'pecuniary benefits' tests under Victorian law and how any inconsistencies between Victorian law and the Corporations Act 2001 (Cth) (Corporations Act) could be addressed.

Formatted: Font: Italic

Formatted: Font: Bold

Formatted: Font: Bold

Formatted: Font: (Default) Arial, 10 pt, Font color: Auto

Formatted: Indent: Left: 1.5 cm, No bullets or numbering

Formatted: Font: (Default) Arial, 10 pt, Font color: Auto

Formatted: Font: (Default) Arial, 10 pt, Font color: Auto

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: (Default) Arial, 10 pt, Font color: Auto

Formatted: List Paragraph, Indent: Left: -0.75 cm, Hanging: 2.25 cm, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm

Formatted: List Paragraph, Indent: Left: 1.5 cm

Formatted: Font: (Default) Arial, 10 pt, Font color: Auto

Formatted: List Paragraph, Indent: Left: -0.75 cm, Hanging: 2.25 cm, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm

Formatted: List Paragraph, Indent: Left: 1.5 cm

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt, Italic

Formatted: Font: Arial Narrow, 8 pt

Once the process for registration is complete or near complete with Consumer Affairs Victoria, and alongside early engagement with the Australian Securities and Investments Commission (ASIC), and then test other all Australian and State and Territory incorporated associations laws can be tested alongside other foreign laws. Whilst there are some exceptions, the Victorian laws prohibit registration if an association's members receive a pecuniary benefit-profit on the basis that the organisation is more appropriately characterised as a partnership of two or more persons carrying on business with a view to profit. The exemptions under Victorian law specify that an association is not taken to secure pecuniary profit for its members or to be formed or carried on for the purposes of securing pecuniary profit for its members merely because one or more of the following apply to the association:¹

(a) the association itself makes a pecuniary profit, unless that profit, or any part of it, is divided among or received by its members or some of them;

(b) the members of the association are entitled under the Victorian law to divide its assets among themselves on its dissolution;

(c) a member of the association receives—
(i) a payment of remuneration in good faith; or
(ii) a benefit to which he or she would be entitled if he or she were not a member of the association;

(d) the members of the association—
(i) compete for trophies or prizes in contests directly related to the purposes of the association; or

¹s.4 Association Incorporation Reform Act 2012 (Vic).



(ii) receive benefits through the enjoyment of facilities or services provided by the association for social, recreational, educational or other similar purposes;

(e) the association makes payments to a member that is an incorporated association having the same or similar purposes.

Under s 115 of the Corporations Act, unless a partnership or association is incorporated or formed under an Australian law, criminal penalties apply under strict liability to those that participate in the formation of a partnership or association that has an object gain for itself or for any of its members and that has for not registering to incorporate an association if it has more than 20 members,² which LawFi DAO already does had more than 20 members within a few weeks of launch. However, the regulations can specify the kinds of partnership or association that can have a higher number of members than 20.³ These are as follows:

Item	Kind of partnership or association	Number
1	<p>(a) Actuaries, medical practitioners, patent attorneys, sharebrokers, stockbrokers or trademark attorneys</p> <p>(b) Partnerships or associations of the kind specified in sub regulation (2), which is a partnership or association that:</p> <p>(a) has as its primary purpose collaborative scientific research; and</p> <p>(b) includes as members: (i) at least 1 university; and (ii) at least 1 *private sector participant, whether or not it also includes government agencies or publicly funded research bodies.</p> <p><i>Private sector participant</i> means an entity that obtains the majority of its revenue from sources other than the Commonwealth, State or Territory appropriations.</p>	50
2	Architects, pharmaceutical chemists or veterinary surgeons,	100
3	Legal practitioners	400
4	Accountants	1,000

Arguably, if LawFi DAO secured a university member it could be eligible for up to 50 members under Item 1(b). However, 50 members would still likely be too small for a DAO.

If the organisation is more appropriately described as a partnership then again penalties can apply where a partnership has more than 20 members and has not incorporated. An act, transaction, agreement, instrument, matter or thing is not invalid merely because of a contravention of s 115 of the Corporations Act.⁴ However, to the extent LawFi DAO is considered to be for-profit outside of the exempted pecuniary benefits and treated as a partnership by Consumer Affairs Victoria, it may have to be structured and registered as a limited partnership to manage the risk of s 115 Corporations Act applying. The Partnership Act 1958 (Vic) also states that a partnership is dissolved by the happening of any event which makes it unlawful for the business of the partnership to be carried on or for the members of the firm to carry it on in partnership. As set out above, with more than 20 or 50 members, LawFi DAO as an association or partnership must be incorporated or (properly) formed under Australian law to be lawful.

² s 115 Corporations Act 2001 (Cth).

³ s 115(2) Corporations Act 2001 (Cth).

⁴ s 103 Corporations Act 2001 (Cth).

Formatted: Font: (Default) Arial, 10 pt, Font color: Auto

Formatted: List Paragraph, Indent: Left: -0.75 cm, Hanging: 2.25 cm, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: Bold

Formatted: Space Before: 6 pt, After: 6 pt

Formatted Table

Formatted: Space Before: 6 pt, After: 6 pt

Formatted: List Paragraph, Space Before: 6 pt, After: 6 pt, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.81 cm + Indent at: 1.45 cm

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: Bold, Italic

Formatted: Space Before: 6 pt, After: 6 pt

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: (Default) Arial, 10 pt

Formatted: Space Before: 6 pt, After: 6 pt

Formatted: Normal, Space Before: 6 pt, After: 6 pt, No bullets or numbering

Formatted: Space Before: 6 pt, After: 6 pt

Formatted: Space Before: 6 pt, After: 6 pt

Formatted: Space Before: 6 pt, After: 6 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt



2.1. What is DAO-first?

There are two colloquial terms to describe how to start a DAO: 'DAO-first', termed by Kain Warwick,⁵ and 'Exit to DAO', termed by Kelsie Nabben and Pauwells et al.⁶

DAO-first refers to a Founder or Founders articulating their Vision, often in a white paper, expression of an initial model of governance, and if a token or tokens will be involved to raise capital, coordinate governance and other activity. Exit to DAO requires the transition from a recognised legal structure to a DAO both in form (i.e. shares converted to tokens and collapse the existing legal structure, for which there is likely no tax restructure relief) and substance (transition people away from employment contracts to core contributor arrangements; seek to make operations and governance autonomous and sufficiently globally decentralised).

Exit to DAO can also be seen as a course of progressive decentralisation, a concept informally introduced by Mona El Isa of Enzyme Protocol (formerly Melon Protocol) and the Maker DAO team. This approach is seen in numerous projects that would have preferred to begin as a DAO if there was less legal uncertainty or who now seek to become a DAO.

If the Bitcoin white paper, tokenomics, protocol and network of miners that have formed around the protocol provide us with the earliest example of a DAO, the model way of launching a DAO in a DAO-first manner is as follows:

- (a) Post a white paper under a pseudonym in various forums – no person or team identified, no hosted website.
- (b) Design tokenomics to emit the supply of tokens based on an activity (e.g. mining) – no pre-mint of token supply; no treasury wallet (or multi signature signers); no global token distribution event to raise capital; no airdrops to attract users; no token rewards scheme to attract users.
- (c) Set principles such as 'longest chain equals the consensus chain' to ground legitimacy of a blockchain protocol according to the majority of the community, especially in the case of contentious hard forks. It is unclear how this concept would apply to a blockchain-based application as it is focussed on the underlying network protocol.

In the case of Bitcoin, the author (also the developer, and arguably the issuer of the bitcoin supply and operator of a financial market and payments platform) has in a sense 'escaped' regulatory capture and a global legal compliance burden. However, the direct consequence is that each miner and each person that deals with bitcoin is exposed to varying degrees of legal and tax uncertainty and an emerging state of regulatory reform because the author does not fit into any neat legal or tax categories.

The blockchains and blockchain-based applications since Bitcoin have introduced countless nuances to their DAO launch and operational structure, tokenomics design, white paper style, and governance models. These nuances introduce identity, legal entities and points of centralisation which in turn reintroduces allocation of legal risk and responsibility and draws the innovation closer to a functional equivalence with existing legal entity characterisations and regulated roles and activities. As it is well known in the industry, being able to clearly articulate who is legally responsible and liable in a DAO, how this may vary between contexts, versus who should be, and which geographies they are all located, is the policy question at hand for lawyers, regulators and policymakers.

2.2. Legal and tax characterisation of a DAO and its activities

⁵ See, K Warwick, 'DAO First Capital Formation' (1 July 2021), available at: <https://blog.synthetix.io/dao-first-capital-formation/>.

⁶ See, K Nabben, 'Experiments in algorithmic governance continue' (29 July 2021), available at: <https://kelsienabben.substack.com/p/experiments-in-algorithmic-governance?s=w>; P Pauwells, J Pirovich, P Braunz, J Deeb, 'zkKYC in DeFi: An approach for implementing zkKYC solution concept in Decentralised Finance' (8 March 2022), available at: <https://eprint.iacr.org/2022/321>

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt



The governance framework for a DAO is a helpful starting point to collate the facts that are relevant to determine the legal and tax entity characterisation of a DAO in a particular jurisdiction, including for compliance and enforcement purposes. This is because the governance framework is the closest proxy we have to the typical indicia that focuses on control to determine who is responsible for an entity's actions, particularly when people are managing the collection and allocation of resources on behalf of others through an entity. Where a DAO legal wrapper is involved it is typically to protect founders and developers with a limited liability vehicle but not all those involved in the DAO model of governance and that use the DAO-governed protocol. In one sense, it is clear that the DAO is separate from the limited liability entity in that the wide group of participants do not benefit from limited liability of the legal wrapper; in another sense, it is not clear that the DAO is separate from the legal wrapper with legal and tax rules that arguably apply to at least deem the legal wrapper entity as responsible for regulatory obligations.

In the recent example of the US Commodity Futures Trading Commission (CFTC) complaint against Ooki DAO,⁷ where the CFTC alleges that Ooki DAO should be defined as an unincorporated association of persons comprised of persons that voted on DAO governance proposals and where it appears the founders were involved as individuals and not through legal wrapper / limited liability entities, the intent of the CFTC complaint appears to aim to set expectations that each DAO participant actively involved in voting faces liability if one or more persons are not managing and meeting regulatory compliance on behalf of the DAO.

Formatted: Font: Bold

The facts relevant for a legal characterisation of a DAO and its regulatory obligations can depend on which law is being applied. For example, the law would seek to identify the 'issuer' upon which to impose legal consequences with respect to an alleged breach of securities laws when a token is used to raise capital. However, if several DAO protocol users suffer loss because a contract vulnerability was exploited then suits brought under negligence or tort law may instead seek to define the person at fault or negligent which may be the 'issuer', the developer and/or the smart contract auditor. If the DAO protocol users that suffer are also the same DAO participants involved in a vote to approve deployment or upgrade of the protocol, or a services agreement for development of such protocol, it is unlikely those persons would sue themselves. The question is what would a third party that has suffered loss expect is the standard of information the voter should have required before casting a vote.

DAO governance frameworks are experimental, not fixed and constantly evolve, and so the legal and tax characterisation (including compliance obligations) does not remain static. In addition, if a DAO is not one 'entity' or 'thing' then the composition of activities and persons involved may each warrant separate legal and tax treatment. The open-source nature of DAO protocols and their community consensus governance is intended to reduce the risk of harm or loss. However, their nascent and experimental nature means that new risks arise and mistakes will happen so the focus of governance frameworks and expectations of voters must be on understanding anticipated risks and mitigation measures including prominent warnings to protocol users who are not also voters.

Notwithstanding this, a basic factual framework is proposed below to allow DAOs to publish sufficient information for their governance framework to be better understood.

2.2.1 Basic factual framework for explaining DAO governance

At minimum, the following facts should be available in the public domain to undertake a basic assessment of legal and tax entity characterisation, and persons responsible within that entity characterisation, based on a DAO's governance framework:

- (a) A function or purpose for existing (**Vision**), which may be expressed by a person or team that identify themselves or that do not identify themselves (**Founder or Founding Team; Identified Founder or Pseudonymous Founder**).

⁷ See, CFTC Release Number 8590-22 available at: <https://www.cftc.gov/PressRoom/PressReleases/8590-22>.



- (b) Persons that have authority to sign DAO treasury multi signature wallet transactions (**Treasury Multisig Signers**), who often are not remunerated but abide by an obligation to carry out the responsibility using best efforts to protect the DAO treasury assets and to approve/sign transactions they believe are approved by token holders or within the Vision of the DAO.
- (c) Token holders that are empowered to vote or cast sentiment on decisions and direction of a DAO, which may be:
 - i. all token holders (**All Token Holders**);
 - ii. only token holders that behave in a certain way (e.g. stake for voting power; do certain tasks) (**Active Token Holders**);
 - iii. only token holders that are appointed or elected to a council or committee, but who are responsible for representing the DAO community (or sections of the DAO community) (**Appointed Token Holders** or **Elected Token Holders**).

(d) Information requirements for DAO governance proposals before they can be eligible for token holders to cast a vote.

(d)(e) Core contributors that are token holders and that can be entitled to receive token incentives for ongoing contribution to the DAO (**General Core Contributors**), some of which are relied upon by the DAO community to exercise judgement and autonomy but whom are always accountable to the scrutiny of All Token Holders and the public at large and whose decisions are able to be reversed or changed by vote (**Entrepreneurial and Managerial Core Contributors** or **EMCCs**).

(e)(f) Smart contract protocols that are deployed but upgradable or redeployable based on a vote of one or more of All Token Holders, Active Token Holders, Appointed Token Holders or Elected Token Holders, where the upgrade or redeploy may be carried out by signers for a Deployment Multi signature Wallet (**Deployment Multisig Signers**).

A blockchain DAO (also known as a network DAO, and as opposed to a DAO that forms around a blockchain-based application) may have one or more of the above, in addition to a minimum number of nodes (under Proof of work consensus) or validators (under Proof of stake consensus).

An illustrative example is set out below, using the Wrapped Ether contract to apply components of the above proposed basic factual framework in the event the contract suffers an exploit attack and those that have interacted with it seek to sue the person/s legally responsible for their loss of ETH, WETH and other tokens from their wallet address.

*Illustrative Example of Protocol DAO or App Level DAO: Wrapped Ether Contract
(0xC02aaA39b223FE8D0A0e5C4F27eAD9083C756Cc2)*

The Wrapped Ether contract was and is necessary to allow persons that hold ether (ETH) to make that ETH software compatible with the Ethereum blockchain by taking it as collateral to mint an ERC-20 token called wrapped ether (WETH). The Wrapped Ether contract receives ETH from a person's wallet address and mints WETH to the person's wallet address.

Some may say that the Wrapped Ether contract that was deployed on the Ethereum blockchain is 'fully decentralised' or 'sufficiently decentralised' because:

- *the contract is 'autonomous' since it has been deployed to the Ethereum blockchain to function as programmed without any means of governance or ability to change the contract's parameters; and*



- *each transaction with the contract is verified by, and recorded upon, the public Ethereum ledger which [at least prior to the Merge] is considered 'sufficiently decentralised'.*

Some may say that the Wrapped Ether contract was not 'sufficiently decentralised' at the time it was deployed because:

- *the signer or signers to the wallet address that deployed the contract are unknown. The wallet address that deployed the Wrapped Ether Contract is 0x4F26FfBe5F04ED43630fdC30A87638d53D0b0876, labelled as 'Maker Deployer 1'; and*
- *The Maker DAO governance framework in at least the lead up to and at the time of deployment of the contract should be analysed according to the above framework to determine decentralisation of the authors and persons involved in creating the contract code.*

To the extent that person or team is identified, or identifiable from the wallet address that deployed the contract to the Ethereum blockchain, then one or more points of historic centralisation exist. If the person or persons are identified or identifiable, they may find themselves defending legal proceedings if harm or loss is suffered by one or more persons that use the contract or if basic disclosure wasn't provided about the general legal and tax consequences of interaction with the contract such that the conversion of ETH to WETH may be considered a tax event or the exchange of one token for another token attracting regulatory obligations.

2.2.2 Points of centralisation (or non-decentralisation) in a DAO governance framework that could lead to a legal or tax entity characterisation

There can be centralisation (or non-decentralisation) for each of the above components of a DAO's governance and operations, some of which would be more critical than others for legal and tax characterisation, compliance and enforcement purposes. For example, if all Entrepreneurial and Managerial Core Contributors were based in Australia it is arguable that the DAO is at least carrying on business (for securities law purposes and for tax law purposes) in Australia, notwithstanding that All Token Holders or Active Token Holders reside in many (or all) countries around the world.

No DAO, nor any existing or proposed legislative framework, seeks to report or require reporting on the level of decentralisation of all or part of a DAO's governance framework. This is in large part why the term DAO is an umbrella term that is often mis-used or misunderstood.⁸ The term, 'DAO in name only', or DINO, has emerged because of the mis-use of the term DAO.⁹

Incorrect uses of the term DAO stem from either or a combination of each of the below components of the acronym:

- (a) Insufficient decentralisation of strategic/entrepreneurial or managerial effort around the world.
- (b) Insufficient autonomous governance and operations.
- (c) Insufficient articulation of vision, purpose and/or values that attract people to form an organisation.

To date, there has been no completed consensus-gathering process amongst internationally recognised standard-setting organisations or national policy makers to agree the appropriate decentralisation or non-

⁸ See, K Nabben, 'DAO Design Patterns' (May 2022), available at: <https://medium.com/block-science/dao-design-patterns-1193af694fb55>.

⁹ See, L Ramalho, 'Building a DAO and not a DINO' (28 May 2021), available at: <https://www.dtiournal.com/p/building-a-dao-and-not-a-dino?s=r>.

Formatted: Font: Arial Narrow, 8 pt

Formatted: Font: Arial Narrow, 8 pt



decentralisation metrics or minimum standards for each of the above components of a DAO governance structure. This exercise is crucial to determine what can and should fall within any one country's regulatory perimeter versus what will require international coordination with setting and enforcement of minimum standards.

US Senators Kirsten Gillibrand and Cynthia Lummis have made the most recent attempt in June 2022 with their proposed bipartisan Responsible Financial Innovation Act (RFI), by introducing a concept of 'entrepreneurial or managerial efforts that primarily determine the value' (EME test) of a particular token. The proposed EME test bypasses the need to craft metrics to measure the 'sufficiency' of decentralisation and instead focusses on the centralisation factors that trigger initial and ongoing regulatory obligations in the regulating country, i.e. the US. It is noteworthy that the proposed Act does not have provisions that deal with clear allocation of legal responsibility in cases such as the illustrative example set out above where an immutable protocol is deployed, available to the world at large and used extensively around the world. However, the Lummis-Gillibrand proposal of outlining the factors indicative of centralisation (as opposed to the factors that prove decentralisation) is likely the appropriate foundation from which DAOs can be regulated where a 'formation country' exists or legally recognised by any country.

2.3. LawFi DAO Tokenomics

The proposed tokens within the LawFi DAO economy include:

- (a) Membership token
- (b) Pay to Rely Product token
- (c) Costs Agreement token
- (d) Time token
- (e) Money token
- (f) POAPs

Each are considered in turn below.

2.3.1. Membership token (ticker: MEMBER-LFD)

The Membership token is proposed to be a non-transferable non-fungible token that represents a person's right to cast a vote and contribute time to advance the purposes of LawFi DAO.

Further detail is set out in the Membership token section below.

2.3.2. Pay to Rely Product token (ticker: PTRP-[L or NL], where L represents Legal Product and NL represents Non-legal Product)

The Pay to Rely Product token is proposed to be a non-transferable non-fungible token that can be generated from a person's use of the Pay to Rely Protocol. However, Mirror protocol cannot be customised currently to prevent the purchaser from transfer of the token and further or custom protocols will need to be explored.

Further detail is set out in the Pay to Rely section below.

2.3.3. Costs Agreement token (ticker: CA-[lawyer/firm name], e.g. CA-BADASL)

The Costs Agreement token is proposed to be a non-transferable non-fungible token that can be generated from a person's use of the Pay to Rely Protocol. However, as above, Mirror protocol cannot be customised currently to prevent the purchaser from transfer of the token and further or custom protocols will need to be explored.



Further detail is set out in the Pay to Rely section below.

2.3.4. Time token (ticker: TIME-LFD)

The Time token is proposed to be a non-transferable fungible token that can be slashed. On the first business day of each month, LawFi DAO members will be asked to provide to the Secretary their estimate hours for the coming month of contribution to LawFi DAO and the actual hours of contribution for the previous month. The Secretary will then batch issue the TIME-LFD tokens to each LawFi DAO member wallet address to reflect their estimate hours of contribution. The relevant number of TIME-LFD tokens will then be slashed by the Secretary (or a delegate).

To reflect one of the DAO's values that time is our most precious resource, there will be community discussion about whether this value is best reflected by setting a maximum per member or allowing a member to decide the time they wish to contribute to LawFi DAO.

A customised protocol is required for this activity.

2.3.5. Money token (ticker: MONEY-LFD)

Money tokens are proposed to be transferable fungible tokens that represent the perceived market amount of value of LawFi DAO. The value of LawFi DAO could be a combination of the utility of the open-source protocol/s deployed, the network of users of the protocol/s, standard of security audits undertaken with respect to the protocol/s, and the membership of LawFi DAO., ~~denominated in US dollar terms, invested in the DAO, in fiat currency, tokens and in-kind services.~~

It is proposed that Money tokens are used to raise capital for the DAO to pursue its purposes – either as a form of donation where there is no right to return of capital provided by LawFi DAO, or as a form of debt financing where the Money token could be staked in a LawFi DAO pool for stakers to receive receipts of principal and interest from the portion of revenue allocated to that pool from Pay to Rely revenue. An initial small round could be undertaken with the use of a Simple Agreement for Future Tokens (SAFT) and subsequent rounds through the seeding of a liquidity pool with a ~~more traditional~~ disclosure document.

It is further proposed that contributions can be made to LawFi DAO in fiat currency, tokens and in-kind services in consideration for Money tokens.

It is intended that there will be a fixed supply but the supply is to be determined with LawFi DAO member and community discussion. The allocation of Money tokens to a team pool, a liquidity mining pool and to add to the treasury and insurance pools is also up for discussion.

If any revenue distribution from the Pay to Rely model is approved, it is anticipated that it would form a separate contractual arrangement and joint venture between each Money token holder and the revenue distribution staking contract (and/or its multi signature signers). Since the Money tokens can fluctuate in value and are transferable, the key question to be resolved through engagement with Consumer Affairs Victoria and ASIC is whether the Money token represents an impermissible pecuniary profit to LawFi DAO members if they are also Money token holders and stakers. If a Member provides financing to LawFi DAO and staking to receive revenue distributions that represent a repayment of principal and interest, arguably this should form a permissible pecuniary profit.

What is most unclear is whether the potential gain from a member also acquiring (or earning through an allocation of Money tokens to a team pool) and then selling a Money token is a permissible pecuniary profit, and whether Money tokens constitute an interest in a managed investment scheme which attracts regulatory obligations. This will be a prominent item for discussion with Consumer Affairs Victoria and ASIC.

2.3.6. POAPs



The Proof of Attendance Protocol will be used to generate POAPs for special events and milestones. Any artwork associated with the POAP will remain the property of the artist/s and provided by the artists to LawFi DAO under a perpetual, royalty-free licence.

2.4. Experiments within the Establishment work stream

2.4.1. Hypothesis: LawFi DAO can demonstrate the difficulties in applying existing law and policy concepts through its establishment and operation

At each step of LawFi DAO, processes will be implemented on a largely manual basis in an attempt to best comply with existing laws ~~and~~ templates available from regulator websites and that are familiar to regulators and policymakers will be used and leveraged where possible.

LawFi DAO strives to make its governance and operations autonomous and global so each step should be replicated in each country represented in the DAO.

2.4.2. Hypothesis: LawFi DAO can develop a reputation as a global, dynamic, self-regulatory organisation that web3 participants look to as setting minimum and best practice industry standards

Better ways of policy making and ensuring good governance of an organisation and an industry can be experimented with in a DAO.

Existing systems and institutions are struggling to keep pace and cooperate internationally with the speed of innovation occurring from borderless blockchain technology, new models of global governance and how to effectively regulate token activities. Eight years on from the ether crowd sale in 2014, regulators continue to debate whether ETH is a security, commodity, currency or property based on existing national legal frameworks. We are only just starting to see international standard setting bodies consider the nuances brought about by blockchain technology but we need to move more quickly to set standards.

Innovators can also know to seek out the LawFi DAO repository of information to access materials and improve their understanding. This would at least help several people be more specific when instructing lawyers or identifying legal and tax issues as they arise.

3. MEMBERSHIP TOKEN

3.1. Description and aims

There is a lot of confusion about what a token is other than something that can be held for investment or for trading, let alone what a token is from a legal and tax perspective and the legal and practical risks that can come with dealing with tokens.

The Membership token design is an experiment to test whether there can be a global minimum standard set for design and distribution of a token intended to represent a person's membership in a DAO. The recent paper by Vitalik Buterin, 'Soulbound',¹⁰ reflects the industry's movement in this direction.

The Membership token proposed design is:

- (a) non-transferable, so that there is no indication that the token is purchased as a speculative investment which is a typical trigger point for application of existing securities laws;
- (b) not intended to be used to raise capital but to recover or defray costs involved in minting the person's Membership token, so that LawFi DAO is treated as a mutual for tax purposes;

¹⁰ Available at: <https://vitalik.ca/general/2022/01/26/soulbound.html>.



- (c) not intended to be airdropped because it relies on a member self-attesting and/or verifying the attributes and qualifications, respectively, to be included in the metadata and visuals associated with their Membership token;
- (d) intended to align or attempt to keep up with best practices concerning self-sovereign identity, decentralised identity, verifiable credentials and privacy enhancing verification procedures such as zkKYC;
- (e) intended to operate as an expression of the attributes and qualifications that a person wants the public to know about them or seek them out for;
- (f) intended to incentivise representative democracy and more equitable outcomes in a DAO; and
- (g) intended to incentivise contribution to LawFi DAO, where the number of Time tokens a member holds is reflected in the meta data and visuals associated with their Membership token

However, in splitting out the bundle of things that are typically all in one fungible token, into a Membership token, a Time token, and a Money token, more complexity is introduced. In addition, one token could facilitate a greater trading volume because there are more reasons to interact with the one token that is composable and transferable. Greater trading volume is one metric to see a coin rise in the aggregator charts like Coingecko, which provides more exposure for the token and project. A project with more tokens in its economy loses out [on this organic activity and volume](#).

3.2. Experiments within Membership token work stream

3.2.1. Hypothesis: That awareness around the w3c verifiable credential work, decentralised identity and zk proofs increases because of the LawFi DAO Membership token attempting to follow the emerging best practice standards and principles

The w3c verifiable credential standard at March 2022 refers to a number of privacy preserving principles worth understanding and upholding:

- (a) data minimisation (don't collect more than is necessary);
- (b) tokenisation of data (don't share the actual data such as the bank account, share a verifiable presentation (a token) that the bank exists);
- (c) be alert to regular use of expiring tokens as this can show behaviour that can correlate to a holder or issuer and expose either or both to a timed attack;
- (d) alert holders to turn off tracking software on the device storing access to the wallet that contains the membership token and verifiable credentials as tracking software continues to improve.

~~(d) — There is a lack of awareness by policy makers about the potential of zk proofs, verifiable credentials and decentralised identity, and a lack of available 'off-the-shelf' and trusted and holistic solutions available from industry. Improved awareness could occur through LawFi DAO's activities with the Membership token and associated regulator and government engagement, policy submissions and at events.~~

Formatted: Normal, Indent: Left: -0.75 cm, No bullets or numbering

Formatted: Normal, Indent: Left: -0.75 cm

3.2.2. Hypothesis: Multi factor authentication and social recovery of a Membership token is the most resilient method for a person to know if their membership token has been compromised and to reissue a membership token if keys to a wallet are lost, stolen or otherwise compromised



Access to a member's wallet may be targeted if that person is known to have a high balance of other valuable and transferable tokens in the same wallet that the Membership token is stored, or if a sort of identity fraud is being carried out to exploit the reputation of the member to the extent that reputation itself becomes valuable to gain entry or access to other protocols or offers.

The form of social recovery will require community discussion and testing.

3.2.3. Hypothesis: More equitable decisions can be made with a membership token registry that is searchable for attributes that reflect many sectors of society and voting approval requirements do not rely on a percentage majority but rather a representative vote

A representative vote would mean that representatives from at least the following sectors are involved and cast a vote:

- (a) First Nations
- (b) Women
- (c) Men
- (d) LGBTQ
- (e) TI+
- (f) Persons with a disability
- (g) Carer community
- (h) Elderly community
- (i) Child welfare community
- (j) Remote and rural community
- (k) Cyber security and esafety industry
- (l) Digital identity industry
- (m) Legal industry
- (n) Web3 tech industry
- (o) Privacy industry
- (p) Tax industry
- (q) AML/CTF industry
- (r) Creative industry
- (s) Gaming industry
- (t) Charity and not for profit industry



- (u) Education industry
- (v) Sustainability industry
- (w) Financial services industry

4. PAY TO RELY MODEL

4.1. Description and aims

The legal profession is well overdue to be disrupted to make access to legal information and services more transparent and affordable.

The Pay to Rely model is an experiment to test whether there can be a new global operating model for delivery of legal information and services and policy making that challenges the traditional law firm model and policy processes.

The new model should be:

- (a) fairer, in terms of equality of access to legal services and input to policy;
- (b) more transparent, in terms of understandings of applications of law that are high risk to low risk;
- (c) a more efficient delivery of some legal services to the market and autonomous where appropriate;
- (d) lift standards of information and behaviour in the market;
- (e) attractive to many geographies;
- (f) incentivise mental health and wellbeing amongst professional service providers such as lawyers; and
- (g) incentivise lawyers to contribute to open-source projects including policy development.

Based on each of the above aims, the new operating model should offer a more attractive and sustainable global model of delivering legal information and services than the traditional largely domestic law firm model, as well as a more equitable and dynamic process for policy reform.

4.2. Assumptions

The LawFi DAO Pay to Rely model assumes that:

- (a) regulatory efforts will be made on a competitive basis by standalone governments rather than multi-government cooperation to produce minimum global standards for legal recognition of DAOs (and their tokens);
- (b) despite the regulatory approach by one or a collection of countries, regulation, or the clarity of application of regulation to DAOs, will not keep pace with the innovation;
- (c) law firms will continue to charge a premium for legal and tax advice in this area because of the emerging regulatory environment and potential harm on a global scale (which could contribute to contagion in the traditional financial sector), which will further reduce access to good advice;



- (d) law firms will continue to heavily disclaim their legal advice in this area because of the emerging regulatory environment and potential harm on a global scale, which reduces risk for the law firm but not the innovators and users forced to make decisions without full information or access to affordable advice;
- (e) a majority of top tier law firms will continue to not accept DAOs as clients because they will not meet basic client acceptance criteria;
- (f) most law firms will continue to calculate fees and determine promotion prospects based on criteria that is heavily weighted towards the billable hours that lawyers record (rather than a lawyers' contribution to open-source projects and policy development), which disincentivises a healthy balance between work and life; and
- (g) the policy making process will continue to be afflicted by the lack of diversity involved in policy proposals.

4.3. Pay to Rely Products

Pay to Rely Products means information or services provided using the Pay to Rely Protocol by persons that may or may not require qualifications and registrations before being able to provide such information or services to third parties.

Formatted: Font: (Default) +Body (Calibri), 11 pt

The Pay to Rely Products and their format must be approved by the Pay to Rely subcommittee before any LawFi DAO member contributes a Pay to Rely Product to LawFi DAO.

Likely Pay to Rely Products include:

- (a) Legal Statements or Templates (**Legal Products**); and
- (b) Non-legal Professional Statements or Templates (**Non-legal Products**).

Formatted: Font: (Default) Arial, 10 pt

4.3.1. Legal Statements

A Legal Statement is a document prepared by an Eligible LawFi DAO member (defined below) that is in the Approved Form.

Inputs to the Approved Form will likely include:

- (a) date that the Legal Statement was prepared;
- (b) the legal or tax question that is considered;
- (c) related legal or tax questions that are considered;
- (d) an application of the relevant law, including statute, case law and guidance from the applicable regulator;
- (e) an annexure that extracts the relevant law; and
- (f) the LawFi DAO licence terms as approved by the Pay to Rely subcommittee.

4.3.2. Legal Templates

A Legal Template is a document and/or program prepared by an Eligible LawFi DAO member that is in the Approved Form.



Inputs to the Approved Form will likely include:

- (a) date that the Legal Template was prepared;
- (b) a template that complies with relevant law and prompts a person to input the required information;
- (c) in line drafting notes that reference the relevant law and links to further explanatory materials; and
- (d) the LawFi DAO licence terms as approved by the Pay to Rely subcommittee.

4.3.3. Non-legal Professional Statements and Templates

Non-legal Professional Statements and Templates will be documents and/or programs prepared by an Eligible LawFi DAO member that are in the Approved Form.

Such items may include statements or templates from qualified accountants about the accounting treatment of a token issuance, bespoke work papers to prepare a crypto tax return by a registered tax agent, and a bespoke information request list to prepare a crypto tax return by a registered tax agent.

4.4. Eligible LawFi DAO member that can contribute a Pay to Rely Product

A LawFi DAO member can provide a Legal Product through LawFi DAO if they:

- (a) are a member of LawFi DAO; or
- (b) once the LawFi DAO membership token is available that person holds a LawFi DAO membership token and that token represents that they:
 - i. are a qualified lawyer in their relevant jurisdiction (e.g. as employee of a law firm); and
 - ii. hold current registration with the relevant legal profession body; and
 - iii. maintain the appropriate professional indemnity insurance cover.

A LawFi DAO can provide a Non-legal Product through LawFi DAO if they:

- (c) are a member of LawFi DAO; or
- (d) once the LawFi DAO membership token is available that person holds a LawFi DAO membership token and that token represents that they:
 - i. hold the relevant professional qualification/s; and
 - ii. maintain the appropriate professional indemnity insurance cover.

4.5. Proposed Pay to Rely Protocol

[Pay to Rely Protocol means one or more contracts deployed on the Ethereum blockchain, or similar, to facilitate the provision of Pay to Rely Products by various providers, particularly those in the legal profession, as set out and updated from time to time in this white paper. Diagrams 1 and 2 below are a visual depiction of the key functions involved for a basic implementation of the Pay to Rely Protocol versus a complex, multifunction implementation, respectively.](#)



Diagram 1: Basic implementation

Formatted: Font: Bold

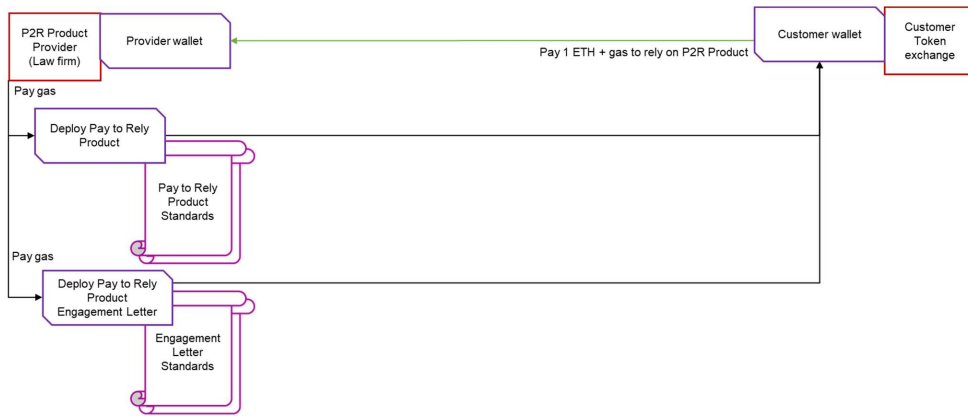
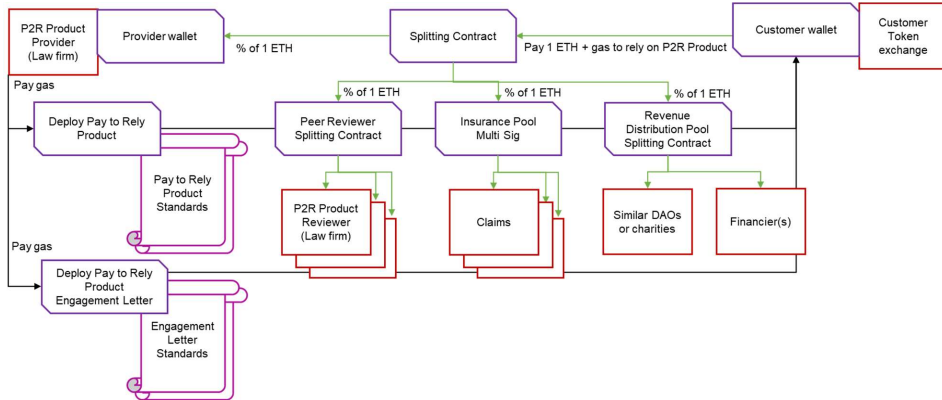


Diagram 2: Complex implementation

Formatted: Font: Bold

Formatted: List Paragraph



Persons that Pay to Rely may make a Claim against an Eligible LawFi DAO member and/or LawFi DAO members and/or the LawFi DAO Treasury if Loss has occurred as a result of their reliance on a Pay to Rely Product.

Persons that view a Pay to Rely Product but do not Pay to Rely have no right to claim against the Eligible LawFi DAO member that contributed the Pay to Rely Product, LawFi DAO or any of its members.

4.5.1. Version 1 Example

Token Exchange A currently pays at least A\$10,000 per legal opinion regarding whether a token Z is a security. Token Exchange B also currently pays at least A\$10,000 for the same legal opinion, from the same or a different law firm. Financial planners and superannuation funds do not pay for such opinions due to cost and the volatile nature of token Z.



An Eligible LawFi DAO member contributes a Pay to Rely Legal Product that provides an Australian legal opinion on whether token Z is a financial product under Australian Law. The Price to Pay to Rely is set at the ETH equivalent of A\$2,000 (including GST). Token Exchanges A, B, C, D, E, F, G, H, I, J, K, L, and Financial Planners A, B, C, D all Pay to Rely, resulting in total proceeds equivalent to ~A\$32,000. Based on a 30% allocation, the Eligible LawFi DAO member would receive ~A\$9,600 (including GST) in ETH.

The Eligible LawFi DAO member is responsible for [setting expiry conditions of the Pay to Rely Product and/or](#) disclaiming responsibility to update the Pay to Rely Product if the facts or law change or putting processes in place to notify all persons that have 'paid to rely' that the Pay to Rely Product is now out of date and if anticipated, when an updated Pay to Rely product will be available for purchase.

4.5.2. Version 2 Example

The Pay to Rely Product is written in an environment that alerts the Eligible LawFi DAO member and persons that have 'paid to rely' when there are updates proposed and passed to applicable law or changes to the facts relied upon.

Primacy (<https://www.primacy.co/>) is working on technology that would support version two of the Pay to Rely Protocol.

Verida (<https://www.verida.io/about-us>) is working on technology that would support sovereign access and decentralised data management of LawFi DAO members to provide Pay to Rely Products.

4.5.3. Version 3 Example

The processes undertaken by Eligible LawFi DAO members to collect the facts relevant to prepare a Legal Statement are automated and a computer-generated Legal Statement is produced.

Red Marker (<https://redmarker.ai/>) appears to have technology that can scan the internet for key terms or changes to text.

4.5.4. Version 1 Processes and functions

The key processes and functions proposed are as follows:

- (a) An Eligible LawFi DAO contributes a Pay to Rely Product to the Secretary of LawFi DAO.
- (b) The Secretary (or a delegate) reviews the Pay to Rely Product to confirm it is in the Approved Form only and if so:
 - i. from the LawFi DAO Treasury Wallet, mints a Pay to Rely Product using Mirror (<https://mirror.xyz/>) by selecting Publish / toggling to Funding / specifying the Price (in ETH) per Pay to Rely Product NFT set by the Eligible LawFi DAO member or in accordance with price ranges approved by the Pay to Rely subcommittee / and specifying the total supply (e.g. 50 Pay to Rely Product NFTs); and
 - ii. updates the LawFi DAO website (<https://lawfido.com>) to display the link to the Pay to Rely Product NFT; and
 - iii. mints a Splitting Contract using Oxsplits (<https://app.Oxsplits.xyz/split/>) specifying the applicable addresses and percentage split for the Eligible LawFi DAO member, the peer reviewer pool, the insurance pool and the yet undetermined grant/donation/revenue distribution pool. NOTE: Only ETH can be sent to a Splitting Contract. Any NFTs sent to the Splitting Contract will be permanently lost.



- (c) When a person pays the Price in ETH they receive the Pay to Rely Product NFT and Costs Agreement NFT.
- (d) If a person pays the Price in ETH and receives the Pay To Rely Product NFT and Costs Agreement NFT then that person can rely on the Pay to Rely Product.
- (e) The Price is paid into the LawFi DAO Treasury Wallet and once received, the ETH is transferred to a Splitting Contract that splits the Price four ways:
 - i. 30% to the Eligible LawFi DAO member that submitted the Pay to Rely Product (e.g. a Legal Statement regarding whether a token is a security under the lawyer's jurisdiction);
 - ii. 25% to a peer review pool of qualified lawyers, where the more peer reviewers that support the Eligible LawFi DAO member's Pay to Rely Product the more robust and reliable it is considered in the market;
 - iii. 25% to an insurance pool, to fund any claims made against the DAO for its activities or which exceed the applicable Eligible LawFi DAO member's (or LawFi DAO members if the peer reviewer/s are joined to a claim) insurance cover; and
 - iv. 20% to either or both of a revenue sharing pool or grant making or donations pool (e.g. to donate some proceeds to the public infrastructure protocols that LawFi DAO uses), the contractual terms of which are to be determined and agreed by a Special Resolution of LawFi DAO members present at a virtual meeting convened in accordance with the LawFi DAO Rules (or that vote by proxy).
- (f) If the Eligible LawFi DAO member approves, LawFi DAO may investigate further splitting the 30% allocation into a GST/VAT component and an income tax component, each directed to its own escrow contract, and each to await conversion to fiat currency to forward to the relevant tax authority.
- (g) If Loss arises because of the person's reliance on the Pay to Rely Product, then depending on the circumstances giving rise to the Loss that person can make a Claim upon the applicable Eligible LawFi DAO member, and/or LawFi DAO members that have peer reviewed the Pay to Rely Product and Supported the Pay to Rely Product, and/or the LawFi DAO insurance pool.
- (h) If a Claim is made upon the LawFi DAO insurance pool, and the Pay to Rely Subcommittee approves the Claim, then the Approved Amount is transferred to the relevant person.

4.5.5. Definitions

- (a) *Approved Amount* means that amount denominated in fiat currency that is approved by a majority of members of the Pay to Rely Subcommittee.
- (b) *Approved Form* means the form approved by the Pay to Rely Subcommittee.
- (c) *Claim* means a claim submitted in the Approved Form to the LawFi DAO Pay to Rely subcommittee for recovery of a Loss.



- (d) *Loss* means an expense that the person has had to incur or expects to incur because of their reliance upon a Pay to Rely Product, where the person has a responsibility to mitigate their losses.
- (e) *Price* means the amount specified in ETH that a person must pay to rely on a Pay to Rely Product and is inclusive of any applicable tax payable by the Eligible LawFi DAO member that contributed, or peer reviewed the Pay to Rely Product. In setting the Price it is assumed that the LawFi DAO is not liable to collect any amount of tax on behalf of the recipients of ETH and on the basis that no income is earned by LawFi DAO.
- (f) *Special Resolution* means a resolution passed by 75% of the LawFi DAO members at a general meeting called in accordance with the LawFi DAO rules.
- (g) *Splitting Contract* means a contract deployed using the Oxsplits protocol (<https://app.Oxsplits.xyz/split/>) where the LawFi DAO Treasury Wallet is the controller of the splitting contract.

4.6. Existing open-source software

Market reviews of available open-source software will need to be conducted initially and on an ongoing basis to determine whether additional or different existing open-source technology can be used or if a bespoke solution is required.

For example, the version 1 processes include manual effort as well as Mirror protocol, Oxsplits protocol and Gnosis Safe. A number of manual processes could be automated, and better and different protocols may be developed.

4.7. Governance

The Pay to Rely subcommittee will be responsible for identification and mitigation of risks to good governance of the Pay to Rely Protocol.

Matters for the subcommittee's consideration include:

- (a) policies and processes to manage conflicts of Pay to Rely Subcommittee members;
- (b) whether claims should be based on recovery of costs only or permit an estimate of anticipated costs of dispute or litigation included in the calculation of Loss as a result of reliance on the Pay to Rely Product;
- (c) the nature of Claims being made and whether processes can be implemented to mitigate or eliminate such Claims.

4.8. Experiments within the Pay to Rely model

4.8.1. Hypothesis: A lower price for legal advice or legal documents that are publicly available and peer reviewed will result in:

- (a) more persons paying to rely on the legal advice or legal documents; and**
- (b) standards of behaviour in the market improving to protect consumers**

Background

A representative sample of data has not been collected to validate the assumptions set out above at section 24.2. Anecdotally, the number of DAOs that have launched and distributed tokens without legal or tax advice,



or with heavily disclaimed legal advice, is an astounding example of the market failing insofar as the legal profession is involved (or rather has not been substantially involved).

Where a legal advice is prepared by the same firm multiple times, or by multiple firms, the market pays a premium for the gated nature of law firms. Information standards in the market can suffer because the price to access legal services is affordable to only a few. The many market participants that launch without legal and tax advice crowd out the few that have obtained legal and tax advice, and those that launch with heavily disclaimed legal advice perpetuate perceptions in the market that the DAO and token launch is legally compliant and risk free or risk managed. This situation has distorted the market perception of behaviours that are unregulated versus those that are regulated but lack sufficiently resourced regulators to enforce or clarify the application of existing law.

The appropriate price point for each 'pay to rely' product will need to be tested in the market with potential persons that would 'pay to rely' such as centralised token exchanges, financial planners, tax agents, and individuals.

4.8.2. Hypothesis: The legal profession oversight bodies can reach comfort or provide endorsement of 'smart costs agreements' that are generated at the time a person 'pays to rely' on a legal advice or legal document

Law firms justify the present position of a private lawyer-client relationship as a basis to preserve confidentiality and legal professional privilege for their clients, which in a number of cases should be preserved. In addition, law firms are required to observe the requirements under relevant legal profession law to provide legal advice specific to each client's circumstances.

There is a level of legal advice or legal document that can be prepared that does not turn on a client's particular facts and circumstances. Providing that level of information to the market will provide access to otherwise unattainable or unaffordable advice, from which persons that 'pay to rely' can leverage from if further consideration is required to apply client specific facts.

4.8.3. Hypothesis: Lawyers that contribute legal advice or legal documents to LawFi DAO experience an increase in demand for bespoke legal services

A lawyer or a law firm's contribution of a Pay to Rely Product to LawFi DAO is intended to demonstrate their ability to understand blockchain technology and the relevant facts to apply the relevant law.

To the extent one or more peer reviewers agree or substantially agree with the Legal Product, that lawyer or law firm's credibility increases as does the robustness of the Pay to Rely Product.

Any Pay to Rely Product will be limited in its breadth and there will be cases where bespoke legal advice is required to apply the Pay to Rely Product to a person's specific circumstances. In this case, LawFi DAO becomes a directory and ranking system, of sorts, that allows the market to find the appropriate legal expertise easily.

5. COMMUNITY BUILDING

Community is the beating heart of a DAO.

A DAO devoted to legal and tax clarity has got to rank low on the interest list for the sectors of the population that we need to attract and educate.

There will be a need for some core working groups devoted to LawFi DAO communications such as sharing content, insights and opportunities, moderating and contributing to the discord server and our very own meme culture, twitter and LinkedIn pages, and outreach to various persons, businesses, regulators and governments about LawFi DAO.



The policy working groups will be critical to discuss and prepare submissions to policy consultations around the world.

Ideas have already been contributed for working groups focussed on circular merchandise, NFT children story books, an in real life social club, and gaming.

6. COMMITTEE AND SUBCOMMITTEES

6.1. Committee

President and Secretary: Joni Pirovich, as authorised representative of Blockchain & Digital Assets Pty Ltd

Vice President: Vic Wells, as authorised representative of Alt Law Pty Ltd

Treasurer: Shane Mays, as authorised representative of PKF Blockchain Advisory Melbourne Pty Ltd

6.2. Subcommittees

Establishment: Seeking nominations for appointments to chair, co-chair, secretary, working group leads

Pay to Rely: Chair: Vic Wells, as authorised representative of Alt Law Pty Ltd

Membership token: Seeking nominations for appointments to chair, co-chair, secretary, working group leads

Community Building: Seeking nominations for appointments to chair, co-chair, secretary, working group leads

UK Law Commission digital assets consultation working group chair: Iris Rad

Taxation of token activities working group chair: Nupur Jalan

7. FEEDBACK AND ISSUES LOG

[TO INSERT] Issue

(a) Various review edits by Joni Pirovich as authorised representative of Blockchain & Digital Assets Pty Ltd.

(b) Feedback from non-member: Description of Money tokens is indicative of a stablecoin. Joni response: This is not the intention. Money token section revised.

(c) Feedback from non-member: Pay to Rely model difficult to understand. Joni response: Edited wording provided with diagram.

8. LICENCE

WThis white paper v0.01 and edits proposed in v1.0 has been produced by Joni Pirovich as authorised representative of member, Blockchain & Digital Assets Pty Ltd. All rights are reserved by that member in respect of this work, and that member provides LawFi DAO, currently an unincorporated association formed in Victoria, Australia, with a non-exclusive, royalty free license to use this work for the following purpose:

(a) for LawFi DAO members to review and amend this work and provide reviewer feedback, where each contribution forms a subsequent work.

Formatted: Indent: Left: 1.5 cm, No bullets or numbering

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: (Default) Arial, 10 pt

Formatted: Font: (Default) Arial, 10 pt

Formatted: Indent: Left: 1.27 cm, No bullets or numbering

Formatted: Font: (Default) Arial, 10 pt

Formatted: Indent: Left: 1.27 cm, No bullets or numbering

Formatted: List Paragraph, Indent: Left: 1.5 cm



Under item (a), LawFi DAO members each become co-authors of such subsequent works by virtue of their input and contribute on the basis that LawFi DAO is provided with a non-exclusive, royalty free license to use the subsequent works for a person to read the white paper.

The members reserve their rights to determine the terms upon which additional use of the works is granted.